What else can financial statements tell you?

American Institute of Certified Public Accountants (AICPA)

What else can Financial Statements tell you?

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Annual Report

Annual reports have been described as documents that are set in large type, require a great effort to produce, and when completed, are cast before multitudes. Somebody has observed that those same characteristics might also apply to night-time sky-writing; in terms of imparting useful information and reaching the audience intended, annual reports could well be in trouble.

Annual reports are hard to understand. Financial writer Steven Anreder who, in preparing his column for *Barron's* could claim to have read more annual reports than most of us, admits these reports are not easily deciphered. Says he: "Corporations are not exactly falling over themselves to make sure shareholders understand the numbers." In surveys which measure how hard they are to understand, annual reports score at a college (or graduate school) level. Studies show 40 percent of the readers toss the reports aside, unread.

People do have trouble understanding annual reports. The reason for this—according to Certified Public Accountants who audit financial statements—is that *people try to read the reports.* They approach them like a book or magazine. And that's a mistake. Annual reports are reference works, with information scattered throughout but not necessarily in any sequential pattern. That's why CPAs urge readers to skim; to hopscotch from footnote to financial data and back to footnotes. It is less of a reading process than a digging out of data to answer questions.

The purpose of this booklet is to show how annual reports are put together and how they can be useful. They are crammed full of information which can answer different types of questions—if you use them for what they are—a reliable and current financial informational source.

What else can Financial Statements tell you?

Annual Reports Disclose:

- Earnings
- Financial Resources
- Plans for the year ahead

But they are also a source that may help you decide

- Is this the company I'd want to invest in?
- Is this the kind of company I'd like to work for?
- If I sell my goods or services, will the company pay promptly?
- What kind of company is this? Should it be welcome in my community? Will it improve my town, provide jobs, help the economy or take part in community activities?

Some Tips That Will Improve Your Understanding of Annual Reports.

- Before you start reading an Annual Report, run over in your mind what you already know about the company.

- Are its products useful, reliable, up-to-date? Do others think highly of the company and the way it is managed?

- Do people hear much about the company?

- Are its leaders involved in the community?

- Do they speak out on controversial issues affecting the public?

- What have you heard about the economy or market trends that might affect the company? The report will supplement what you already know with financial data and other information.

Where To Start

Seasoned readers turn first to the Auditor's Report. This will tell you whether the auditor found anything wrong or misleading with the presentation of the financial statements. Generally, if the Auditor's Report is two paragraphs long, the financial statements have been given a clean bill of health (i.e., unqualified opinion). Anything longer—an extra paragraph or so—and normally that's a red flag, alerting you to look further. Some investigation is warranted. (Note, a clean bill of health doesn't mean the company is in good financial shape. All it means is that the financial statements are fairly presented in conformity with generally accepted accounting principles.)

Check the first note on the financial statements. That's where you're most likely to find an explanation of the company's accounting policies used in preparing the financial statements. For example, the note might explain the company has applied a policy of accelerated depreciation on plants and other equipment. This could reduce earnings, while a slower depreciation rate could boost earnings.

So before reaching conclusions about the company earnings it's wise to determine if the earnings are responding more to accounting policies than market conditions.

- Look for trends in the five or ten-year financial summaries.
- Analyze key ratios to better understand data reported. (For details on how to apply trend analysis by ratios, see pages 12 and 13.)
- Skim through the Chairman's Letter for content and future prospects.

1977 Highlights

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	1977	1976	% Change
Net sales from continuing operations	$671,227,000	$601,960,000	+11.5
Income from continuing operations	$ 36,031,000	$ 43,685,000	−17.5
Income from discontinued operations	$ —	$ 1,112,000	—
Gain on sale of discontinued operations	$ 5,300,000	$ —	—
Net income	$ 41,331,000	$ 44,797,000	− 7.7
Net income per common share			
Continuing operations	$2.62	$3.18	−17.6
Discontinued operations	—	$.08	—
Gain on sale of discontinued operations	$ .39	—	—
Net income per common share	$3.01	$3.26	− 7.7
Dividends per common share	$1.14	$1.03	+10.7
Cash dividends paid	$ 15,251,225	$ 13,736,454	+11.0
Capital expenditures	$ 27,535,000	$ 20,722,000	+32.9
Stockholders' equity	$259,668,000	$233,529,000	+11.2
Equity per common share at year end	$18.91	$17.02	+11.1
Outstanding common shares at year end	13,730,288	13,720,186	—
Market prices of common stock— range during: First Quarter	19½–22⅜	18½–23¼	
Second Quarter	18¼–20⅞	20 –27	
Third Quarter	17⅞–21⅛		

Consolidated Statements of Changes in Financial Position

b

	For the Years Ended December 31 1977	1976
Financial Resources Provided		
Continuing Operations:		
Net income	$36,030,608	$43,685,180
Depreciation	7,994,778	7,538,977
Deferred income taxes	4,824,708	1,313,933
Total provided from continuing operations	48,850,094	52,538,090
Discontinued Operations:		
Net income or gain	5,300,000	1,11
Depreciation	—	
Deferred income taxes	(2,521,63	
Assets sold or held for disposal		
Total provided (applied) fr disc		

c

Liabilities and Stockholders' Equity December 31,	1977	1976
Current Liabilities:		
Notes payable (note 4)	**$ 34,120,000**	$ 12,727,000
Accounts payable	**49,371,000**	43,074,000
Accrued expenses	**87,297,000**	69,625,000
Income taxes (note 3)	**21,685,000**	19,953,000
Total Current Liabilities	**192,473,000**	145,379,000
Long-Term Debt (note 4)	**42,355,000**	53,000,000
Other Non-Current Liabilities (note 3)	**17,619,000**	20,121,000
Total Liabilities	**252,447,000**	218,500,000
Stockholders' Equity (notes 5 and 6):		
Cumulative preferred stock, par value $5.00 per share Authorized 2,000,000 shares	**—**	—
Common stock: Authorized 50,000,000 shares; issued 19,791,000 in 1977 and 19,737,000 in 1976, at stated value	**30,901,000**	30,847,000
Additional paid-in capital	**63,048,000**	62,181,00
Retained earnings	**254,837,000**	222,63
	348,786,000	
Less common stock in treasury; 45,000 in 1977 and 43,000 in 1976, at cost	**252,000**	
Total Stockholders' Equity	**348,534,000**	
	$600,981,000	

The Classic Investment Decision: to buy or sell

a Most investors will focus on Earnings Per Share (EPS) . . . The bottom line. A healthy figure means a robust company. EPS is computed by dividing the total earnings by the number of shares outstanding. In comparing five year figures, discount any slight changes from year to year, but pay close attention to the trend in Earnings Per Share. If the EPS either remains unchanged or drops off, this may pinpoint trouble ahead.

b Increasingly, investors are now looking beyond Earnings Per Share to Working Capital Provided by Continuing Operations, which is found in the Statement of Changes in Financial Position. This is regarded as an important index of a company's health because it reports whether operations generate enough cash to meet payroll, buy raw materials and conduct the other essential day-to-day operations of the company. Another key indicator is the company's record in paying dividends to shareholders.

c Another indicator—that you have to compute—is the Debt to Equity Ratio. This sounds complicated, but it really isn't. Simply divide the total Shareholders Equity into the Total Long Term Debt. A high figure indicates that creditors are in a position to exercise great influence over the company. Information you ought to have to make an investment decision.

Stockholders' Questions: How's my company doing?

d The President's Letter is often a response to the question, "What's ahead for the company?" In the past, these letters often skirted the bad news, focusing only on good news. However, standards now insist that all parts of an Annual Report—including the President's Letter—cannot be inconsistent with what's in the financial statements. In simple terms, the President's Letter describes company developments and outlines how the company is allocating its resources to foster growth.

e For details, look at the *Analysis of Operations* where fluctuations in sales, income, expenses or

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Fellow Stockholders:

1977 turned out to be another good year for us, providing the highest sales ever recorded and the third best earnings yet seen in our 132-year span of corporate life. Costs continued to exert pressure on profits throughout the year, and the apparel fabrics market, weakened by the mounting flood of imports as well as keen competition among domestic producers, did not enable us to maintain margins at levels that would have kept our earnings up in proportion with our higher sales volume.

Consolidated net sales for 1977 totalled $304,802,000, up 4% from 1976 sales of $294,311,000. Net earnings of $11,869,000, or $2.73 per share, were down 7% from the $12,766,000, or $2.94 per share, earned in 1976. While any drop in earnings is disappointing, I believe our net profit for 1977 measured by return on sales of 3.89% and return on stockholders' equity of 12.14% will place us among the top performers in the industry for the year again.

At the regular quarterly meeting held in October of 1977, your Board of Directors increased the quarterly dividend from 22.5 cents per share to 25 cents per share, or from 90 cents per share annually to $1.00 per share. Taking into account the 5-for-4 stock split declared in 1973 and the 2-for-1 split in 1975, along with the increases in the cash payout per share made effective, the annual cash dividend rate has been increased by 150% over the past five years.

Cash generated by earnings, depreciation and deferred income taxes amounted to $19,107,000, or $4.42 per
share, which compared with $19,534,000, or $4.53
share, for 1976. Depreciation totalled $6,149
compared with $5,757,000 for 1976, an
The investment tax credit was $828
share; this credit amo

year, it was some $2,500,000 more than we expected to spend when we started into 1977, largely accounted for by the fact that we had to capitalize our payment on the wastewater treatment plant being built by the Aiken County Public Service Authority as well as a lease on computer equipment. We are committed to programs designed to conserve energy and to provide the safest and healthiest work environment possible for our
employees. Some $2,500,000 was spent in 1977 for
purposes and to meet requirements of the Environ-
mental Protection Agency. We have received appro
from our Board of Directors to spend up to $9,00
for capital improvements in 1978, of which we
that some $1,500,000 will be sp for energy c
servation, environme
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taxes are explained. This is a good source for identifying a company's strengths or weaknesses.

A recent proposal under study would require the listing of outside directors' affiliations. Including background information on these directors might help assess the degree of their independence. This proposal also recommends listing names of directors serving on an Audit Committee. Reviewing who they are may help you to evaluate the stress the company places on accountability. Ideally, all members of the Audit Committee should be independent of management.

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Management's Discussion and Analysis of the Summary of Operations

The financial comments relate to the current two year comparative results of operations as well as the five year financial summaries contained on pages 14 and 23.

During the five years ended December 31, 1977, Hershey Foods Corporation experienced growth in consolidated net sales. Income from continuing operations showed a continued upward trend except for 1977 when cocoa bean costs reached unprecedented levels. Income in 1973 was severely depressed when Federal price controls, which did not allow a timely pass-through of cost increases, adversely affected earnings.

1977 Compared with 1976

Consolidated net sales from continuing operations increased by $69,267,000 or 11.5% to $671,227,000 compared with the same period in 1976. The Chocolate and Confectionery Division accounted for most of the increase in sales. Sales of Other Food Products and Services also increased over 1976. Both the pasta division and Cory sales were higher than 1976 reflecting increased tonnage for pasta and higher selling prices for Cory.

In December of 1976 the Chocolate and Confectionery Division increased prices on many items and increased weights of its standard bars. As a result, these bars, which sold in most retail outlets for 15¢ in 1976, sold for 20¢ in 1977. While dollar sales increased because of higher selling prices, unit sales declined for this period.

Costs of cocoa beans, milk, peanuts and almonds were higher in 1977 compared with 1976. Raw material costs for sugar were slightly lower in 1977. To liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 1977 purchases, the effect of which decreased cost of goods sold by approximately $8,500,000 and increased net income by approximately $4,000,000 or $.29 per share. During 1977, cocoa bean prices reached unprecedented levels. The Company viewed the economic conditions causing this increase as temporary. Thus, the company's cocoa bean procurement strategy was to minimize, within operating needs, purchases of this commodity. As prices are so volatile, it is not uncommon for inventory levels to also fluctuate.

Selling, administrative and general expenses increased substantially in 1977 compared with 1976 because of increased promotion and selling expenses and higher consumer advertising. Another factor contributing to the increased costs was the expense associated with the acquisition of Y & S Candies. Additionally, the general rate of inflation has caused an increase in other costs.

The operations of Y & S Candies Inc., acquired in November, 1977, were adversely affected this year primarily because of the costs associated with the closing of the Brooklyn, New York plant; relocation to the new Lancaster, Pennsylvania manufacturing facility; and the merger.

As a result of an improved cash position in 1977 the Company had net interest income of $509,000 compared with net interest expense of $356,000 in 1976.

Income from continuing ope
was $36,031,000 in 1977 in c
with $43,685,000 in 1976

cocoa beans at the end of the year.

Other receivables decreased at the end of 1977 because of the sale of L. D. Properties and the resulting loss of almond sales at year end and lower raw bulk milk sales.

1976 Compared with 1975

Consolidated net sales from continuing operations increased by $25,795,000 or 4.5% to $601,960,000 in 1976 compared with 1975. The Chocolate and Confectionery Division accounted for much of the increase in sales with Other Food Products and Services being slightly higher than 1975. The pasta division remained at about the same dollar level as 1975, although poundage increased. Cory sales were higher than 1975 reflecting higher selling prices.

Sales dollars increased in 1976 compared with 1975 in spite of average selling prices being lower in 1976 than 1975. The increase in consumer units sold exceeded the percentage incre
sales dollars and poundage also increased.

The Chocolate and C
Division decreased sell
increased bar weight
early in 1976. In
Division increa
and increas
bars. As
in most
for

Career Opportunities?

In choosing a company to work for, the questions you ask are not much different from those a potential investor might ask. You'll want to know as much as possible about the company's financial position and its growth potential—which means expansion and job opportunities. So you will want to study the Financial Highlights, which in summarizing income and expenses, show at a glance how the company's performing.

f If you are interested in a high-technology industry, you should turn to the item headed Selling General and Administration Costs. Generally included within this category are the costs of research and development. Although only the amount—not the quality—of the R&D effort can be determined from the Income Statement, the amount is an important indication of the company's commitment to R&D. Look for amounts in a note to the financial statements, which might read as follows:

"Research and Development costs of $180,000 in 1978 and $160,000 in 1977 are expensed as incurred and are included in Selling General and Administrative Costs."

Consolidated Statements of Income and Retained Earnings

	For the Years Ended December 31	
	1977	1976
Net Sales	$671,226,799	$601,959,556
Costs and Expenses:		
Cost of goods sold (Note 1)	453,960,322	383,663,981
Selling, administrative and general	109,585,083	93,503,079
Shipping	28,816,271	27,649,942
Depreciation	7,994,778	7,538,977
Interest expense (income)—net	(509,263)	356,397
Total costs and expenses	599,847,191	512,712,376
Income from continuing operations before taxes	71,379,608	
Provision for Federal and state income taxes (Note 3)		
Income from Continuing Operations		
Discontinued Operations (Note 2):		
Income from discontinued operations (less income taxes of $1,256,093)		
Gain on sale of discontinued operations		

...mpany, which was ... on June 30, 1977. Commencing in 1973, the first year of a substantial commercial harvest, the deferred expenses were being amortized on a straight-line basis over 18 years, which was the estimated commercially productive life of the almond trees.

Development and Promotion Expenses—The costs of research and development ($2,686,000 in 1977 and $2,229,000 in 1976) and advertising and promotion are expensed in the year incurred.

Income Taxes—Provision for Federal and state income taxes is based on income recorded in the financial statements. Deferred income taxes arise principally from the use of different methods of depreciation for tax and accounting purposes. The reduction in income taxes currently payable, resulting therefrom, is credited to deferred income taxes in the Balance Sheets. The provision for income taxes has been reduced by g

Before joining a company, you certainly want some assurance that the firm is healthy and growing. You'll find clues to this in the Financial Summary, which lists key financial data (income, expenses, profits and dividends). In five- or ten-year comparisons, these figures show how well the company has been doing, if sales are rising, and how expenses are controlled, all vital life signs of a company with a future.

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Look for reports of stock options for employees and changes in pension plans. Usually, these are reported in notes.

Sometimes you may obtain an inkling of how a company treats its people by carefully studying the employee benefit programs. Compare the principal benefits with those offered by other firms, paying particular attention to the medical programs. Another area worthy of your attention is litigation. Is the company a defendant in lawsuits involving its employee practices? What are the charges and how has the company responded?

Five-Year Financial Summary

	1977	1976	1975	1974	1973
Operating data (in thousands)					
Net sales	**$875,513**	$797,882	$704,908	$639,126	$543,884
Costs and expenses:					
Cost of sales and operating expenses	**610,799**	570,888	512,943	467,741	395,071
Selling, general and administrative expenses	**161,127**	142,400	124,507	111,261	97,175
Interest expense	**6,850**	6,258	7,288	8,517	3,605
	778,776	719,546	644,738	587,519	495,851
Earnings before income taxes	**96,737**	78,336	60,170	51,607	48,033
Provision for income taxes	**48,796**	38,502	28,317	23,939	22,112
Net earnings	**$ 47,941**	$ 39,834	$ 31,853	$ 27,668	$ 25,921
Earnings per average share of common stock					
Average common shares outstandinc					
Dividends paid					
Balance shee					
Workin					

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7. Employee Benefit Plans

The Company and its subsidiaries have in effect a number of pension plans for salaried and hourly-paid employees. Costs of the plans charged to operations including amortization of the past service costs over a period not exceeding years, amounted to $8,260,000 in 1977 and $7,986,000 in 1976. The Compar policy is to fund accrued pension costs.

The effect of the Employee Retirement Income Security Act of 1974, along other plan amendments and a change in actuarial assumptions, effective January 1, 1976, is not significant to the Company's pension costs, fundir pension costs or unfunded vested benefits.

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The actuarially-computed value of vested benefits for all plans excee total of balance sheet accruals and the market value of pension fur the most recent valuation date by approximately $7,600,000.

Effective January 1, 1976, the Company established a Savings an Ownership Plan for certain eligible employees. Under the plan, th

Is the company a potential customer for my goods or services?

The average supplier is more concerned about a company's payment policies than its long term growth pattern. A clue to payment practices can be found by examining the current ratio. The figure is not included in the financial statements, but it may be easily computed: Divide current assets by current

$$\frac{\textbf{current assets}}{\textbf{current liabilities}} = \textbf{current ratio}$$

liabilities. Repeat the computation to obtain ratios for two prior years so you may compare the figures. A decline in the ratio shows a company's ability to meet current obligations has worsened. An increase on the other hand indicates it's better able to meet current commitments to suppliers.

How can you tell if the company's thinking about closing a plant?

Annual reports are unlikely to address themselves directly to this bold question. But the information it conveys will bring you closer to an answer.

New rules require a company to disclose separately the disposal of a segment. What this means is that when a company closes a plant whose activities represent a separate major line of business, it would be highlighted in the financial statements as a discontinued operation. Look for these details in the statements. In some cases, the President's Letter might allude to changes affecting a company's productive capacity.

Will the company protect the environment in my community?

Some companies may report special efforts they have undertaken to safeguard the environment. The most likely place to find such information would be either in the President's Letter or in sections of the report describing the year's activities of company divisions. Dollar amounts spent for such safeguards are not reported separately in financial statements. But it may still be possible by examining notes or summaries of past year's operations to determine the company's performance in this area.

Will the company attract new business?

Start with the growth pattern. Look at allocations for research and development, plant acquisitions, borrowing practices, the record for introducing new products, the leadership position management takes in industry, its competitive position and its five- and 10-year summaries that put company history in perspective. Upbeat responses mean the company will probably be expanding.

Will the company attract visitors to our town?

In the text explaining company activities or perhaps in picture cutlines, look for indications of major conferences, seminars, and similar gatherings of technical people. When a company assembles large groups to come to its installations, it will have an even broader impact on the community. People come; they occupy hotels, dine at the local restaurants, shop at the stores, and help boost the local economy. Such information can be a guide to the merchant's planning for the year ahead.

How to Uncover Vital Facts:

Auditors rely upon an analytical tool called Ratio, Change and Trend Analysis to find out more about a company than would be possible by simply reading the financial data, as presented. This process compares sets of figures and in establishing their relationship enables one to gain a better understanding of a going business. The ratios highlight unusual, unexpected, or otherwise unexplained changes in a company's performance. Although auditors caution against using ratios to reach conclusions, they agree that ratios are useful to investors concerned with financial strength and operating performance and to creditors concerned with solvency and financial structure.

Listed below, as fractions, are elements from financial statements in an Annual Report. To obtain a ratio, divide denominator into the numerator (top figure). To determine trends, repeat using figures for prior years.

Is the company solvent?

$$\frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$$

A test for solvency. Provides clues to the magnitude of the financial margin of safety. For more stringent tests, delete inventory from assets and compute new ratio.

Has it borrowed wisely?

$$\frac{\text{TOTAL DEBT}}{\text{NET WORTH}}$$

Reveals the extent to which the company has borrowed from suppliers and credit grantors. Too much debt may indicate insufficient capital. Could jeopardize purchase discounts and weaken competitive position.

How is company performing?

$$\frac{\text{WORKING CAPITAL}}{\text{SALES}}$$

Shows relationships of working capital to business transacted. Compare with industry average* to determine company performance.

*Industry Averages—obtainable from industry trade groups, or by computing figures from several companies in the industry.

Are the products selling?

$$\frac{\text{COST OF SALES}}{\text{INVENTORY}}$$

Shows number of times inventory turns over. Can be inconclusive because it lumps all items—some products may move faster, others slower. Comparisons with industry averages can be revealing.

How's management doing?

$$\frac{\text{NET PROFIT}}{\text{NET WORTH}}$$

Shows return on invested capital. This measures how well management is doing on earning a return on capital. Compare with industry average and for further insight take into account the degree of risk involved.

Is it earning a profit?

$$\frac{\text{NET PROFIT}}{\text{SALES}}$$

This measures profit margins. Again, for real measurement, compare with others in the industry.

Are profits adequate?

$$\frac{\text{COST OF SALES}}{\text{SALES}}$$

If the margin here appears thin, compared to industry averages, it could mean the company is headed for trouble. This ratio is an indicator of what is available, after deducting costs of sales, to defray general and selling expenses, research and development costs.

The Auditor: A Skeptic Probes

"In every company," says author Joseph Heller, "there's someone going crazy." For the auditor whose attitude of skepticism toward a client's figures is legendary, the Heller view couldn't hurt.

It is the auditor's responsibility to test the propriety of financial statements. One might think all that is involved is checking the arithmetic. That could be the case if financial statements were simply the sum of their parts. But that's not true. Financial statements are a combination of facts, judgments and estimates. In testing their validity, an auditor uses audit procedures developed by the CPA profession which make it likely that improperly prepared statements will be identified.

Before the audit begins, the independent Certified Public Accountant develops a working knowledge of the company's industry. A kind of sophisticated "street knowledge," it is what helps an auditor evaluate the data and information submitted by management.

The auditor will take a careful look at a company's internal control system, that series of safeguards which offer a company its best opportunity to protect its assets, curb dishonesty, and adhere to management policy. For example, effective internal controls would divide into separate groups those entrusted with responsibilities for either receiving money, or tabulating receipts, or depositing funds, or reconciling the bank statements.

Following this, the auditor turns to the scrutiny of company documents, comparing them with other evidence. For example, orders and receipts are compared with company records to prove the transactions actually took place. Sampling techniques are used to test transactions. If questions are raised, the auditor expands his review in search of further evidence. However, it is neither practical nor necessary for the auditor to scrutinize a large portion of the company's transactions.

The auditor confirms bank balances, spot-checks outstanding bills (receivables) and evaluates the company's methods for taking inventory. He or she tallies marketable securities, checks schedules of depreciation of plant and equipment, reads minutes of vital meetings, studies contracts, and confers with management, directors and outside counsel about company operations. Through the process, the auditor must remain alert to significant developments—such as a build-up of inventory, new developments by competitor firms—anything that might impact on the company. Those exposed areas receive particular attention. The audit must comply with generally accepted auditing standards. The objective of such an audit is to provide reasonable assurance that financial statements do not contain material errors or omissions.

The testing over, the auditor then by exercising his professional judgment and by drawing upon his knowledge of business operations reaches a conclusion. This is the bottom line in the audit . . . the Auditor's Report.

Either the auditor finds the financial statements are fairly presented in conformity with "generally accepted accounting principles" and affixes the CPA firm's name to the report, or the auditor starts considering a report that is something other than the two-paragraph report signifying a "clean opinion." There are two categories auditors use when dissatisfied with the financial data presented. An auditor may qualify an opinion, stating what specifically prevented him from expressing a "clean opinion."

The second alternative is a more drastic response. Theoretically, the auditor may disclaim an opinion—which means he can't express any conclusions—or express an adverse opinion—which means the financial statements are misleading. In practice, these reports are seldom issued. Such a report is not acceptable to the SEC and major stock exchanges and could lead to a de-listing of a company's securities.

The Beginning

Without the continuous collection—and classification—of numerical facts and data, the fabric of the modern state would not hold up. Neither commerce nor government could continue.

Once compiled, how can the information best be used? Answering that question, as it relates to Annual Reports and their financial statements, has been the purpose of this booklet.

Between the covers of an Annual Report there is an abundance of statistical information. Primarily, this discloses the financial records of a company. Those records, summarized, presented in attractive charts, and explained with notes and other comments, describe the activities of a commercial entity. Because this is so, elements of the financial data, which are guides to investment decision, can also provide background information that can help answer other questions.

It is important to keep in mind that the financial information disclosed in Annual Reports relates to a single enterprise during a specific time frame. Annual Reports do not supply all the information you might require to answer general questions. You probably will have to supplement the data with information on the economy, the industry in general, the programs of government and perhaps public attitudes.

An Annual Report is not a complete compendium of information about a company. But you will find that the financial information prepared by a company, and audited by the Certified Public Accountant, has broad applications.

What Else Can An Annual Report Tell You?
To find out, you have to dig.

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